



Motion Picture Association of America, Inc.

EXHIBIT

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Valenti

VALENTI CALLS FOR END TO "INVASION OF COPYRIGHT SNATCHERS"

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FOR IMMEDIATE RELEASE

Washington, D.C., Thursday, July 16, 1998...Addressing the Internet World Summer 98 conference in Chicago, Jack Valenti, President and Chief Executive Officer of the Motion Picture Association of America (MPAA), today described the Internet as "the wave, perhaps tidal, of commerce in cyberspace" and called for copyright protection against the "invasion of the copyright snatchers" on the World Wide Web.

Valenti remarked at this gathering of global Internet and Web users that an increasing number of households own computers. Homes equipped with computers increased from 15% in 1989 to over 44% in 1997. "Homes using the Internet have more that doubled in the past three years. Over the past five years, the number of websites has advanced with bewildering speed, growing to two thousand five hundred times the number in 1993," said Valenti.

In explaining why copyright protection ultimately benefits U.S. consumers, Valenti stressed the importance of intellectual property, which comprises of movies, TV programs, home video, books, music and computer software. It "accounts for almost 4% of America's gross domestic product... growing twice the rate of the national economy. It is creating new jobs, high paying jobs, at three times the velocity of the national average," said Valenti. Globally, "for the first time intellectual property collects more revenues from the international marketplace than the aircraft industry, automobiles and auto parts, and agriculture."

The protection of America's creative works is as "old as the Constitution." Valenti noted that a simple way to protect creative works is to "deploy technology protection shields ... on the World Wide Web. Technology provides a coded lock on the door to which entry is allowed only when permission is granted by the copyright owner." The key to copyright protection, according to Valenti, is offered through a treaty signed by 150 members of the World Intellectual Property Organization (WIPO) in Geneva in December 1996. The WIPO Treaty would "lift the level of copyright protection around the world, including as its core the use of technology to protect copyrighted works." The struggle is now in the US House of Representatives to implement the Treaty.

One of the opponents of the implementing legislation is the hardware manufacturers, who insist on an exemption to when they produce versions of a 'black box,' which allows the



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copying of digitally guarded movies. "Obviously such a loophole... would destroy all protective shields," said Valenti. "Unlike analog copying where quality is degraded with each copy, the 1,000th digital copy is as pure and pristine as the original." Valenti also asserted that "we are not trying to overturn the Betamax decision. We don't want to ban VCRs or their progeny ... All existing and future devices with legitimate purposes will be freely available."

Valenti dismissed arguments saying the legislation harms "fair use." Citing "fair use," some libraries and universities want "unlimited entry into copyrighted encrypted movies, with the additional power to copy at will." Valenti has concerns that the granting of this passkey entry would "entice massive piracy."

He cautioned that if intellectual property is "vulnerable to poachers, through unauthorized entry or copying, if they are not protected by simple, firm, clearly stated rules of the game, then ...we will laugh loudly at our folly in the years to come."

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"PROTECTING AMERICA'S MOST PRIZED EXPORT IN THE
DIGITAL WORLD"

REMARKS OF

JACK VALENTI, PRESIDENT & CEO
MOTION PICTURE ASSOCIATION

Before

SUMMER INTERNET WORLD '98

JULY 16, 1998

CHICAGO, ILLINOIS

Last week I participated in a unique four-day assembly of the titans of the cable and telephone industries, movie studios, television networks, cable networks, marketing leaders and, of course, explorers and navigators of the Internet. There in person were the chief executive officers of Microsoft, Berkshire Hathaway, Coca-Cola, Comcast Cable, Nokia, American On-Line, Walt Disney Company, Viacom, Time Warner, Universal Studios, Dreamworks, Sony, Intel, NBC, CBS, ABC, USA Network, News Corporation, TCI, AT&T, and others as well as fifty or more of the largest money managers in the U.S.

For the better part of the week these proconsuls of the future examined the future. In particular, they talked about the shape and form of delivery of information, data, and entertainment. Where are we going? How are we going to get there? How tumultuous will be the journey? What will we find when we arrive? How will American consumers judge and involve themselves in that future?

What emerged from this searching inquiry into a veiled digital tomorrow by this legion of the wisest, this band of visionary brothers and sisters? It was agreed that the penetration of the Internet into America's homes is seemingly unceasing. From 15% of homes equipped with computers in 1989, the number leaped to over 44% in 1997, and is still on an ascending curve. Homes using the Internet have more than doubled in the past three years. Over the past five years, the number of websites has advanced with bewildering speed, growing to two thousand five hundred times the number in 1993! It was agreed that the Internet is the wave, perhaps tidal, of commerce in cyberspace.

What was judged to be unclear by this gathering of gurus was precisely how the World Wide Web will ultimately be used by consumers, what impact that usage will have on the conduct of daily living by American families, and which enterprises will be winners and losers. There is so much we don't know about a digital world moving with lunar force velocity and changing so fast that forecasting its final form is like trying to pick up mercury with a fork.

What was not fully excavated except in brief, ominous terms was what I would describe as 'the invasion of the copyright snatchers.' Or to put it another way, the potential for digital disaster that can be visited on brittle, delicately formed intellectual works inhabiting the Web by those who over-ride technological protection measures. No question but what the magic of binary numbers is exploding, expanding with the speed of kudzu. It spreads across the intellectual property landscape into areas where there are no protective signs which warn intruders: "THIS IS PRIVATE COPYRIGHTED PROPERTY." This is the Great Gap. It has to be filled. It threatens to stunt the value of America's greatest trade prize. It puts to hazard the future of America's most wanted export in all the countries of the known world.

The World Intellectual Property Organization saw clearly the face of the approaching peril. The members of WIPO recognized its menace and they moved with unanimity to frustrate its danger. In December, 1996, in Geneva, some 150 WIPO countries agreed to a treaty which lifts the level of copyright protection around the world, including at its core the use of technology to protect copyrighted works. Congress, and specifically, the House of Representatives, is now the site of the struggle in the U.S. to implement the Treaty whose aim it is to protect intellectual property from those who, without authorization or permission, want to invade its copyrighted security and use what belongs to others for their own ends.

Let me explain, please, why a protective shield must be installed, and NOW, else the regard for these fragile creative works will shrink and decay to the ultimate injury of U.S. consumers. Intellectual property -- movies, TV programs, home video, books, music and computer software -- accounts for almost 4% of America's gross domestic product. It is growing at twice the rate of the national economy. It is creating new jobs, high paying jobs, at three times the velocity of the national average. And for the first time, intellectual property collects more revenues from the international marketplace than the aircraft industry, automobiles and auto parts, and agriculture. It is an asset too valuable and too rare to be treated casually.

The simple way, the indispensable way, the only way, to protect creative works and guarantee their future is to deploy technology protection shields when they arrive on the World Wide Web. Technology provides a coded lock on the door to which entry is allowed only when permission is granted by the copyright owner. This is what the WIPO Treaty is all about.

This isn't a new concept in the U.S. Nor is it revolutionary. It's as old as our Constitution. It is why Congress earlier granted to cable premium pay channels (HBO, Showtime, etc.) the right to encrypt, thereby denying intrusion by others without permission. Congress conveyed the same protective rights to premium pay channels for satellite delivery direct to homes. Why then is the Congress fussing about simply granting that same protective shelter to the Internet? What is the prime reason for delay in doing what everyone knows ought to be done?

First, hardware manufacturers are insisting on some type of exemption when they produce versions of a "black box" which can override digitally guarded movies when they are downloaded to machines which can copy them. Obviously such a loophole, large enough to accommodate a sixteen-wheeler, would destroy all protective shields. Unlike analog copying where quality is degraded with each copy, the 1,000th digital copy is as pure and pristine as the original. Digitized movies in DVD can be viewed over and over again in the home for the enjoyment of American families. But they cannot be copied. If ever the Congress confers legal status on any machine whose prime mission in life is to commit copyright burglary, we are in big trouble. The intellectual property community, in an effort to soften this issue, has put forward a compromise design which certifies when a machine pushes the copying envelope too far. Unhappily, the hardware makers say "No." This is, sadly, an instance when the rhythms of reason collide with unreason.

Let me be as clear as a human can be clear: We are not trying to overturn the Betamax decision. We don't want to ban VCRs or their progeny. We welcome hardware makers who market useful products. We want families to be confident that all existing and future devices with legitimate purposes will be freely available. The only folks who have cause for fear are the makers and marketers of so-called "black boxes." They can be described as "stealing machines." They are part of the community of thieves.

Second, some libraries and some universities want to be given a pass-key to unlock the shielding technology for what they describe as "fair use." That is, all libraries and their employees would have unlimited entry into copyrighted encrypted movies, with the additional power to copy at will. To allow this unlimited pass-key entry would entice massive piracy. It would vanquish the technological guardians which preserve copyright integrity. Everyone knows this. Even as everyone understands and agrees that no one can or should unlock the codes on HBO or Showtime, or decrypt movies on satellite,

without permission. Today, when libraries and universities want to stock movies in cassette form, they purchase as many copies as they choose from Blockbuster-type stores or from authorized distributors. That process would work the same in the digital world. Once a movie has completed its pay-per-view run on the Web, it would then move swiftly to other market segments: Blockbuster-type stores, cable, network TV, satellite, international markets and so forth. Those who choose to rent or buy or watch will have ample opportunity to do so. Including libraries and universities. Movie makers must leap from market segment to market segment in order to survive. If we lock up our movies forever, we'll go broke.

This is the simple solution, the right solution, the only solution.

No one in the intellectual property community wants to quarrel with libraries or universities. I personally served on the Library Board of Houston for over fifteen years. There is no need for controversy. Libraries and universities serve their long term interest by being champions of copyright protection. They do not allow certain material in their keeping to be loaned out or taken off the premises. Why? Because libraries recognize the validity of protection and they make ample use of it.

Never forget: Creation comes before distribution, or there will be nothing to distribute. The Web is a great distribution warehouse. Valuable intellectual property will be stored there, some of it encrypted, and offered to those who choose to use it. If these creative prizes are vulnerable to poachers, through unauthorized entry or copying, if they are not protected by simple, firm, clearly stated rules of the game, then we are all collaborating in a vast illusion, which will haunt us, shrink consumers' choices, and laugh loudly at our folly in the years to come.